



Chapter Four: Market Development

Overview	4.2
Developing a Marketing Plan	4.2
Marketing Plan Resources	4.2
Marketing Strategies: Branding, Labeling and Third-Party Certification . .	4.3
Labels Based on Production Practices	4.4
Other Labels Regulated by USDA	4.5
Labels Based on Third-Party Certification of Production Practices	4.5
Michigan Agriculture Environmental Assurance Program	4.6
Resources for Labeling and Third-Party Certification.	4.6
Product Promotion	4.7
Michigan Product Promotions	4.7
Internet and Catalog Marketing	4.7
International Marketing	4.8
International Marketing Resources	4.9
Growing/Adapting Production Practices to Supply Your Market	4.9
Season Extension Techniques	4.9
Season Extension Resources.	4.10
Value-added Food Processing	4.10
Resources for Value-added Food Processing	4.11
Pricing Products for Various Markets	4.12
Pricing Strategies	4.13
Price Based on Costs – “Cost Plus”	4.13
Price Based on Perceived Value.	4.14
Price Based on Retail Price	4.14
Price Based on Commodity or Wholesale Market Prices.	4.15
Price Based on Relationship with Buyer	4.15
Resources for Pricing	4.16

Overview

When planning to sell your products, you need to know and understand a variety of issues, such as basic market development and pricing strategies. Previous chapters covered the initial steps for developing your business, from market selection to handling and distribution. This chapter focuses on developing successful marketing strategies and developing an identity for your products so buyers seek them out. Promoting your business raises awareness in the marketplace. Developing a recognizable product or brand is important to the vitality of your business.

Developing a Marketing Plan

A marketing plan is a written document that details the necessary actions to achieve one or more marketing objectives. It can be for a product or service, a brand, or a product line. Most marketing plans cover between one and five years, and your marketing plan may be part of your overall business plan or a stand-alone plan. A solid marketing strategy is the foundation of a well-written marketing plan. While a marketing plan contains a list of actions, a marketing plan without a sound strategic foundation is of little use.

The most important benefit of a marketing plan is the planning process itself. Developing a marketing plan, as with developing a business plan, helps you look at where you are now and where you want your business to go and how you see yourself getting there. It also helps you set and achieve your personal and business goals.

When developing your marketing plan, your objectives and marketing activities should be clear, quantifiable, focused and realistic, and you should have buy-in from those who will have to implement it. The result should become a working document which will guide the marketing activities throughout the organization over the period of the plan. For a marketing plan to work, every change or exception to it throughout the year must be questioned, and the lessons learned from successes and failures should be incorporated in the next year's planning.

Marketing Plan Resources

MSU Product Center for Agriculture and Natural Resources

Assistance in developing and commercializing high-value, consumer-responsive products and businesses in the agriculture and natural resource sectors.

517-432-8752; Fax: 517-432-8756; mimarket@msu.edu;
www.productcenter.msu.edu





If you direct market and have face-to-face contact with your customers, your face and name are your brand.

Michigan Department of Agriculture, Office of Agriculture Development

Market development assistance, including connections to resources and regulatory requirements. 517-241-2178; Fax: 517-335-0628

Michigan Small Business and Technology Development Center/Michigan Economic Development Corporation (MEDC)

Assistance for aspiring and growing businesses, including a *Starting a Business in Michigan* guide, no-cost counseling, and low-cost training and market research. www.misbtcd.org

Get Farming! Program, Michigan Land Use Institute

Resources for new and aspiring farmers. 231-941-6584; www.localdifference.org/getfarming

Agricultural Marketing Resource Center (AgMRC)

Iowa State University, Ames, Iowa. This site offers business advice, strategies and resources to farmers and ranchers, including how to use grants, branding, business communication skills, customer relations, feasibility studies and more. www.agmrc.org/business_development

The Learning Store

University of Wisconsin-Extension. www.learningstore.uwex.edu/Direct-Marketing-C12.aspx

Marketing Strategies: Branding, Labeling and Third-Party Certification

While part of marketing is connecting your name to your product to help customers recognize a brand, the key step is making sure your customers always experience quality product when they buy that brand. If you direct market and have face-to-face contact with your customers, your face and name are your brand. People recognize you and know the products you are selling. Simple things like wearing a hat or t-shirt with your farm logo, or the same type of clothing that becomes your trademark look can help with customer recognition.

If your marketing path takes you two or three steps away from face-to-face contact with your customer, then it becomes important to find other ways to help your customers recognize

your products. Developing a brand identity is one way to gain recognition. It can be as simple as applying preprinted stick-on labels with your company name and logo. It could involve developing your own website or brochures with photos of you and your farm, information about your farming practices, and your mission statement.

Labels can also help you present a larger image of your products to customers. Your brand might be just you or your farm, but you can add to your image by using labels that make a statement about your farming practices.

Labels that indicate you are following sustainable farming practices or farming practices that are environmentally sound are typically called “eco-labels.” Some eco-labels are regulated by the USDA. There are a variety of eco-labels available for farmers, but some labels have little criteria and can be confusing for some customers. If you choose to use eco-labels that are not widely recognized, research exactly what they mean so you can explain them to your customers.

Be aware that the use of multiple labels can actually be a turn-off for customers who can become confused and annoyed trying to sort everything your product stands for.

Labels Based on Production Practices

Free-range: This label tells customers that poultry products or eggs come from birds not raised in cages and that have been given space to roam. There is also a cage-free label for eggs. USDA does not have requirements for eggs; however, neither label requires third-party certification. The USDA does not define or certify free-range or free-roaming claims for any meat or poultry products.

Grass-fed: This label identifies meat products coming from animals fed on grasses and forages, never grains. The grass-fed label is under USDA regulation with standards having been defined for meat.

Naturally raised: This label is used by livestock producers to indicate to customers that certain production practices have been followed (in most cases that no growth-promoting hormones or antibiotics have been used) and that meat products have no artificial ingredients or added color and have been minimally processed. USDA has developed regulation standards for this label.

For more information on the current status of marketing claim standards for labels based on production practices, visit www.ams.usda.gov/AMSv1.0 and enter the label name in the search box.



Other Labels Regulated by USDA

USDA Inspected and Meat Grade Label: USDA inspection stamps assure consumers a meat product is accurately labeled. Meat stamped with a USDA label has been evaluated for class, grade or other quality characteristics. See the resources page at the end of this section for more information on meat labeling.

Labels Based on Third-Party Certification of Production Practices

To use the labels below, your business must be enrolled in the third-party certification program and must meet the program criteria. You must set up a recordkeeping system to track your operations to verify you continually meet those criteria. An inspector visits your business to check your records and confirm that you are meeting the program criteria. For most of these programs, there is an annual inspection/certification fee.

USDA Organic: The National Organic Program (NOP) develops labeling standards for organic agricultural products. Farmers who want to use the word “organic” in marketing materials are required by law to be certified. The NOP accredits certifying agents who inspect production and handling operations to certify that farmers meet USDA standards.

www.ams.usda.gov and search on “organic program.”

Food Alliance Midwest: This label means a business is certified by Food Alliance Midwest, a non-profit program and regional affiliate of Food Alliance. These programs operate a comprehensive third-party certification program for sustainably produced food. In addition to offering certification of farming practices, marketing opportunities are offered to enrolled farmers through partnering with other organizations working to connect potential buyers with sources of local food. Food Alliance-certified farmers become preferred sources for those buyers. www.localfoods.umn.edu/foodalliance

Animal Welfare Approved: This Animal Welfare Institute program and food label is a non-profit endorsement for farms meeting certain standards for humane treatment of farm animals. www.animalwelfareapproved.org

Certified Humane Raised and Handled: This consumer certification and labeling program is for eggs, dairy, meat or poultry products. Food products carrying the label are certified to have come from facilities that meet certain quality standards for farm animal treatment. www.certified-humane.org/whatis.html



Developing a brand identity is one way to gain recognition. It can be as simple as applying preprinted stick-on labels with your company name and logo.

Michigan Agriculture Environmental Assurance Program

Differentiating your product from other products can help you get top dollar for your product. The market for food grown using environmentally sound farming practices continues to increase. The Michigan Agriculture Environmental Assurance Program (MAEAP) is a voluntary certification program available to Michigan farms of all sizes and all commodities that voluntarily prevent or minimize agricultural pollution risks. Once the certification process is complete, farms receive a yard sign and placards that can be used at direct market locations declaring the farm uses environmentally sound practices.

Resources for Labeling and Third-Party Certification

MSU Product Center for Agriculture and Natural Resources

The MSU Product Center has developed “Made in Michigan” stickers available for its clients to identify their products as Michigan-made. 517-432-8752; Fax: 517-432-8756; mimarket@msu.edu; www.productcenter.msu.edu

Michigan Agriculture Environmental Assurance Program

Michigan Department of Agriculture, Environmental Stewardship Division. 517-373-9797; www.maeap.org

Guidebook for Organic Certification

Midwest Organic and Sustainable Education Service (MOSES). www.mosesorganic.org/guidebook.pdf

Eco-label Value Assessment: Consumer and Food Business Perceptions of Local Foods Research Report

Iowa State University, Leopold Center for Sustainable Agriculture. www.leopold.iastate.edu/pubs/staff/ecolabels/index.htm

An Independent Guide to Eco-Labels

www.ecolabelindex.com/ecolabels/?search=food



Product Promotion

Promoting your products involves making your business name recognizable to the public. In direct marketing, you have an advantage of talking directly to your customers. This creates special relationships with those who buy your products. With intermediate marketing, you need to develop an awareness of your business and the products you have available. You start by deciding on a business name – and often product names – and perhaps develop a logo and informational materials.

Promotional tools can include advertising, sales promotion, public relations, websites, and online specials, just to name a few. For more information on how to promote your business, see the resources listed at the end of this section.

Michigan Product Promotions

There are many opportunities in Michigan to promote your products through trade shows, special events, paid and free cooperative advertising, and more. Some of these opportunities are offered by the Michigan Department of Agriculture, Travel Michigan and other state agencies; others are coordinated by private trade organizations and organizations affiliated with Michigan State University and other Michigan universities. There are also private efforts by organizations created to tap into the loyalty Michigan residents feel toward buying Michigan products and to promote Michigan businesses. Michigan retailers and restaurateurs also host Michigan product promotions and special events. To connect with some of these resources, and learn about opportunities for your business, contact MDA's Office of Agriculture Development at 517-241-2178 or www.michigan.gov/mda; or go to www.SelectMichigan.org.



Internet and Catalog Marketing

The Internet is a powerful tool for reaching out to a large, diverse audience and a useful tool for local marketing. A website allows you to convey a lot of information about your business, your production practices and your values without overwhelming potential customers.

While there is a cost in both time and money to set up an Internet-based system, it is available at any time of day or night. You can let your customers know about hours, location and special events; give updates on the status of your crops; or, if you have animals on the farm, announce new births.

Listing your business with online directories can help local customers find you. Many of these directories are used by media when they write about seasonal events and activities, like fall hayrides or pumpkin patches.

Developing your own website can be a great publicity and sales tool as an increasing number of people turn to the Internet to find information and do their shopping. Interactive websites, where you have a place for customers to post comments or photos of their visits to your farm, or host contests for your customers to participate in, are also gaining in popularity.

The Internet is one possible approach for managing the ordering and billing for retail or institutional sales (be sure to back up electronic records just in case).

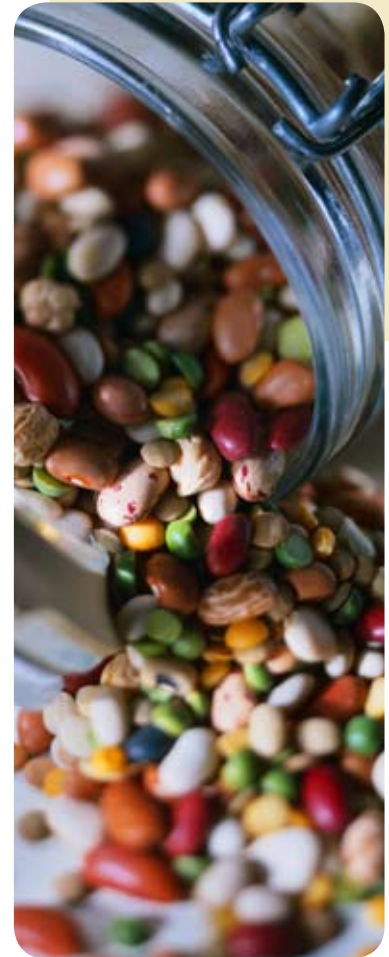
International Marketing

Michigan's agricultural exports generate more than \$1 billion annually and support over 12,000 jobs. The top agricultural exports are soybeans and soy products, feed grains and feed grain products, fruits and vegetables. Michigan's top trading partners include Canada, Japan, Mexico, South Korea, Thailand and Taiwan, but the state's products can be found around the world. The state is also ranked second nationally for exports of dry edible beans, and fifth and eighth, respectively, for fruits and vegetables.

MDA's International Market Development Program provides services and implements activities that help Michigan food and agricultural firms initiate or expand their international markets. Programs and services offered by MDA are open to all Michigan producers, processors and packagers of all sizes and experience levels. MDA's International Market Development Program partners with Food Export-Midwest to bring even more services and international marketing options to Michigan businesses.

Food Export-Midwest is a non-profit organization comprised of Midwestern state agricultural promotion agencies. Food Export-Midwest utilizes federal, state and industry resources to help companies export their products around the world and increase international product sales. MDA works with Food Export-Midwest to plan, promote and manage projects throughout the year. Services include exporter education; market entry through trade shows, buyers' missions and an online product catalog; market promotion through a cost-share branded program and in-market promotions. MDA also provides assistance to individuals and businesses in evaluating foreign market entry methods, understanding and obtaining regulatory requirements, finding qualified buyers, understanding logistics, and much more.

Michigan's agricultural exports generate more than \$1 billion annually and support over 12,000 jobs.



International Marketing Resources

Food Export Association of the Midwest

312-334-9200; Fax: 312-334-9230; info@foodexport.org;
www.foodexport.org

Michigan Department of Agriculture, International Marketing Program

517-241-3628; Fax: 517-335-0628;
www.michigan.gov/agexport

Growing/Adapting Production Practices to Supply Your Market

Market development includes creating or expanding the markets for your existing or future products as well as increasing the value of these food products. You may also need to adapt your production practices to meet consumer demand. Season extension techniques, including high tunnels, greenhouses, row covers, and storage facilities; and value-added processing are both options for meeting market demand.

Season Extension Techniques



The length of the growing season is a marketing challenge for Michigan farmers. Many buyers would like to have a year-round supply of products. Seasonality of products can also be a challenge for farmers' personal finances. Careful planning and budgeting is required to make seasonal income last until the next growing season.

To help alleviate the seasonality of growing produce in Michigan, season extension techniques can be applied to farming operations. Farmers can use a number of season extension techniques, alone or in combination.

High Tunnels – Plants are directly planted into the ground within a greenhouse-like structure. These structures, also known as hoop houses, are not used for year-round production, but can extend the season beyond the normal growing season in Michigan.

Greenhouses – Plants are typically grown in containers, trays or shelving units. Year-round production is possible with a heat source. The cost of heating needs to be weighed with the profits gained by year-round production.

Row Covers – “Floating” row covers are made of a lightweight fabric that sits directly on the plants. “Low tunnels” are covers of plastic sheeting or fabric that are held off the plants by hoop-shaped frames.

Storage facilities – Winter storage of vegetables such as root crops, cabbage, onions, garlic and squash has allowed some farmers to supply food services, grocery stores and individual customers throughout the winter. Storage can be built on-farm, or off-farm storage may be rented. For more information on post-harvest handling and storage, see Chapter Five.

Season Extension Resources

Farmer Tips on Hoop House Use

Michigan State University, C.S. Mott Group for Sustainable Food Systems at Michigan State University, and Michigan Food and Farming Systems. www.mottgroup.msu.edu/Portals/0/downloads/FarmerTipsHoophouseUse.pdf

Extending Seasons and Profitability through a Growing Environment

Center for Innovative Food Technology.
www.eisc.org/attach/hoop_house.pdf

Greenhouse & Hydroponic Vegetable Production Resources on the Internet

www.attra.ncat.org/attra-pub/ghwebRL.html#high_tunnels

Value-added Food Processing

In the narrow sense, “value-added” refers only to processing a raw product into something of higher value. In the broad sense, “value-added” is a term used to identify farm products that are worth more than the commodity market price because of an added feature. This could include products raised according to special standards, or the experience added to products at agri-tourism enterprises. “Value-added” could also be something as simple as developing a brand for a product.





Many food and agriculture businesses that market locally are interested in value-added products as a way to earn a greater portion of the consumer's food dollar. Processing raw commodities into ready-to-eat foods can also broaden your market to include customers who are not interested in making their own jam, salsa, bread, sausage, cheese or other products.

In general, value-added processing requires an inspected and approved kitchen facility. Michigan's new Cottage Food Law exempts from licensing and inspection those who produce and sell non-potentially hazardous food items directly to end users, as long as annual sales do not exceed \$15,000. The categories of allowed and restricted types of processing should be reviewed prior to starting. For more information about food license and labeling requirements, see Chapter Five.

If you do not have a licensed kitchen facility of your own, you can access facilities for approved processing in several ways. Some commercial kitchens are available for renting. Michigan is also home to incubator kitchens that allow processors to use the kitchen facilities and even provide on-site storage facilities. These incubator kitchens also provide training and marketing assistance.

You can also hire a co-packer to produce your product. With this option, you supply the raw materials and perhaps the recipe for your product. You hire an existing food processing business to process your product and do the packaging and labeling for you.

You may choose to invest in facilities and equipment to do your own processing. With this option you need to consult early with local and state regulators about licenses, permits and requirements for the facilities. Used equipment is generally acceptable to regulators if properly maintained, and is usually less expensive than new equipment.

Resources for Value-added Food Processing

MSU Product Center for Agriculture and Natural Resources

Assistance in developing and commercializing high-value, consumer-responsive products and businesses in the agriculture and natural resources sectors. 517-432-8752; Fax: 517-432-8756; mimarket@msu.edu; www.productcenter.msu.edu

The Starting Block West Michigan Regional Kitchen Incubator

Located in Hart, services include commercial kitchen, office rental, education, equipment, licenses, product development, warehouse and storage, and community partnerships. 231-873-1432; Fax: 231-873-1458; www.startingblock.biz

Foodworks East Michigan Regional Kitchen Incubator

Located in Bad Axe, services include commercial kitchen, equipment, and storage capacities. 989-269-6431; www.huroncounty.com/~kitchen

An Entrepreneur's Guide to Starting a New Agricultural Enterprise: Managing Risk

University of Delaware, Cooperative Extension. www.mredc.umd.edu/Documents/Agritourism/EntrepreneursGuide.pdf

Checklist for Starting a Value-added Agriculture Enterprise

North Carolina State University, College of Agriculture and Life Sciences. www.ncmarketready.org/pdfs-ppt/toolkit/checklist.pdf



Pricing Products for Various Markets

Deciding on the price to set for products is a frustrating job for many businesses. Pricing is a balancing act – you need to get a price high enough to give you a profit and make you feel rewarded for your work, but you also need to meet the needs of your customers, who want to get full value for the price they pay.

When pricing your products for market, you need to develop a pricing program for each product. This will allow you to incorporate all expenses, such as materials, transportation, packaging and marketing costs, yet obtain a fair return on your labor. Setting prices is typically the hardest thing farmers do when they market products.

When you direct market, you take responsibility for obtaining pricing information, deciding on a pricing strategy, and setting the prices for your products. When you sell directly to the consumer, you are also doing the marketing work. It takes time and effort to market a product, prepare it for sale, package it, promote it, and get it into the hands of your customers. You need to charge enough to pay yourself for all that effort. You may encounter customers who complain about the price. Don't be too quick to lower your

price in response to complaints. Recognize the value in your own product and charge a price that reflects that value, but realize not everyone will agree with your pricing decision.

When you market your products to an intermediate buyer, instead of the end-consumer, you need pricing information to help negotiate the terms of sale. In some cases, you may be offered a “take it or leave it” price for a raw product. Knowing the wholesale prices for your product on the open market can help you decide if you should take the offered price.

If you have a product of exceptional quality or a specialty product that costs more to produce, you will need to do your own research on pricing for similar products. Be ready to explain why you deserve a premium price for the product. Provide the buyer with information about your production methods or special product features to help them capture a good price from the end consumer.



Sometimes you need more than a high-quality food product to get the price you want. Well-designed packaging, a label that supports a brand identity, or third-party certification can add value to a product in your customer’s eyes. These all have an added cost in time and money, so you need to make sure you earn enough money to cover the costs.

Pricing Strategies

You must decide on a pricing strategy or strategies that work for you. Pricing is based on market demand and the supply available. The greater the demand with a limited supply, the higher the price. In some cases, where large quantities are available, products may still command a high price, depending on demand. Combining pricing strategies can help you find a variety of ways to market your products. Variety in marketing keeps you from being dependent on just one buyer and lets you market different grades of product in different ways. Your pricing may also depend on the buyer. Supplying a consistent, quality product may offset price dips occurring in other markets.



Price Based on Costs – “Cost Plus”

“Cost plus” should be the basis of your pricing program. If you lose money on what you grow, other pricing strategies will not matter. With cost plus, you use financial records to determine the cost of production, packaging, marketing and delivery, then decide on the profit you need to make and add that amount to the other costs to arrive at a price.

Enterprise budgeting is important for this pricing strategy because it helps you track your costs of production. In addition to costs of growing, be sure to include the time, labor and other expenses you put into processing, packaging, labeling, advertising and selling your product. Some enterprises involve holding a product in storage, which requires accounting for the cost of holding that inventory. Delayed payments are another hidden cost. If you sell to an intermediate buyer such as a distributor or restaurant, you may wait at least 14 days and perhaps up to 60 days between product delivery and payment. Refer to Resources for Enterprise Budgets in Chapter One for more information.

Price Based on Perceived Value

This pricing approach allows you to take into account the intangible things valued by many consumers – humane handling of livestock, for instance, or the knowledge that you are a good environmental steward. Customers may attach more value to your products and reward you. In turn, you can charge more than the average price of similar products. Pricing information can be difficult to find, though, since so much of a product's value depends on the customer's tastes and preferences. You may need to persuade customers your farming practices merit the higher price. Achieving a value-based premium price may require investing time in marketing activities and educating customers.



Price Based on Retail Price

Consumers pay retail prices for food at the grocery store, yet setting retail prices can be difficult. The Economic Research Service of the U.S. Department of Agriculture reports average retail prices for crops and livestock. Prices change monthly depending on the season and which products are in short or abundant supply. Retail grocery prices in your area can differ greatly from the national average. If your area is far from shipping terminals, for example, transportation costs will probably be reflected in higher retail food prices. While USDA numbers can help you monitor retail prices and their seasonal fluctuations, checking grocery store prices in your area will provide the most helpful information. Look at prices on products similar to yours. If you have a specialty product, compare prices in stores that carry similar products to see what you might charge. Remember, grocery store retail prices reflect a percentage mark-up from what the producer was paid. Some grocery stores routinely offer certain products at a loss to bring customers into the store. This is a sales strategy that most farmers can't match.

Price Based on Commodity or Wholesale Market Prices

The commodity market price rewards the effort that goes into producing a raw product and getting it to a point of sale. For products such as raw fruits and vegetables, the commodity market price pays the farmer for production as well as first steps in processing and packaging. For example, a farmer might wash vegetables, cut off tops of root vegetables, and pack them into crates prior to selling them to a distributor at the commodity price. Basing your price on the commodity market could be appropriate if you are selling a raw product right from your farm without any special branding, labeling or marketing efforts.

Wholesale price can mean different things depending on the buyer. It may include some processing, packaging, shipping and handling costs. Most online resources show wholesale prices on the east and west coasts and perhaps the Chicago terminal price. Shipping costs result in higher wholesale prices in areas far from terminals. Prices paid locally by distributors or other intermediate buyers can provide useful information if you plan to sell to this type of buyer or to other local markets. Determining wholesale prices may take extra work on your part to contact distributors or grocery store buyers in your area to ask about the prices they are paying for their products.

Price Based on Relationship with Buyer

One of the important elements of selling local food products is the opportunity to build relationships with your customers and buyers. The strength of this relationship can have a great effect on pricing. For example, if you share cost of production information, your buyer may offer suggestions on how to best price your product. Sometimes a buyer will tell a farmer their price is too low. When both you and your buyer mutually decide on a fair price, it supports and strengthens the whole local food system.

Understanding the price setting structure for different markets will help you set prices for your products that are fair, yet still provide a profit for your efforts.



Resources for Pricing

Conventional Wholesale Prices from Terminal Markets

U.S. Department of Agriculture, Agricultural Marketing Service
www.ams.usda.gov/fv/mncs/terminal.htm

Benton Harbor Fruit Market

Locally Grown Produce Price Report
www.bhfm.com/price-report

Today's Market Prices

www.todaymarket.com

Organic Wholesale Market Prices (market produce)

Rodale Institute. www.newfarm.org/opx

Crop Budgets for Direct Marketers

University of Wisconsin-Extension
www.uwex.edu/ces/agmarkets/publications/documents/A3811-9.pdf